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NEWS RELEASE

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PSC CHAIRMAN GOSS TESTIFIES BEFORE TVA BOARD
Backs continued transmission access for customers leaving TVA

HOPKINSVILLE, Ky. (May 18, 2006) –Kentucky Public Service Commission (PSC) Chairman Mark David Goss today encouraged the Tennessee Valley Authority (TVA) to provide continued transmission access for customers who leave the TVA system in order to purchase power from another wholesale supplier.

Speaking at a hearing before the TVA Board of Directors, Goss said that allowing continued access offers several advantages, including avoidance of the wasteful duplication of facilities, increased reliability and the potential for sharing reserve generating capacity.

Duplication of facilities “is not the best use of utility resources, because it can place unnecessary burdens on landowners and because it creates needless visual clutter on our landscape,” Goss said. “Allowing departing TVA customers access to TVA transmission could reduce or perhaps even eliminate the need to construct new facilities.”

The access issue has come to the forefront as a number of TVA customers in Kentucky have filed notice of their intent to withdraw from the TVA system. The largest of those – the 30,000-customer Warren Rural Electric Cooperative Corp. – is slated to begin purchasing electricity from the East Kentucky Power Cooperative (EKPC) in 2008.

Because of TVA rules restricting access to its transmission system, EKPC is constructing 90 miles of new transmission line to serve Warren RECC.

The TVA called the hearing in Hopkinsville to discuss the issues arising from the departure of Warren RECC and four other customers from TVA.

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Goss praised the TVA for coming to Kentucky.

“Your presence today in Hopkinsville carries a significance that extends beyond the topic at hand,” he said. “The willingness of the new TVA board to venture into the field to listen to the views and concerns of its stakeholders sends a powerful signal that you are determined to open new lines of communication and improve cooperation between the TVA and states, utilities and other entities.”

The text of Chairman Goss’ remarks is attached.

Written testimony submitted by Chairman Goss is available on the PSC Web site, psc.ky.gov.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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Oral Testimony of Mark David Goss
Chairman, Kentucky Public Service Commission
Before the
Board of Directors, Tennessee Valley Authority
Hopkinsville, KY
May 18, 2006

Mr. Chairman, members of the Tennessee Valley Authority board, my name is Mark David Goss. I am chairman of the Kentucky Public Service Commission. I am pleased to be here today to present to you, on behalf of the Kentucky PSC, information about Kentucky's electric transmission infrastructure and to discuss with you the question of how TVA's facilities fit into the broader picture of the electric transmission needs of Kentucky and the region.

With me today are Commissioner Greg Coker and several members of our senior staff.

Your presence today in Hopkinsville carries a significance that extends beyond the topic at hand. The willingness of the new TVA board to venture into the field to listen to the views and concerns of its stakeholders sends a powerful signal that you are determined to open new and expanded lines of communication and improve cooperation between the TVA and states, utilities and other entities.

This is not to suggest that we have not worked closely in the past. Just in the past two years, the TVA has been a participant in two studies in which the Kentucky PSC examined the reliability of our state's transmission, evaluated our electric infrastructure and assessed our future needs. We greatly appreciated the information and technical expertise the TVA was able to bring to those efforts. We certainly look forward to strengthening our relationship with the TVA as we move forward to meet the challenges of the 21st Century.

I have submitted for the record a statement that provides a broad overview of Kentucky's electric transmission infrastructure; describes our planning processes for meeting both transmission and generation needs in the future; summarizes our recent evaluations of our electric transmission grid; and discusses some of the issues we see on the horizon, as well as our views on the question of transmission access within the TVA system.

Since our time is limited, let me move directly to that topic. Should TVA continue to provide transmission access on its system to customers who leave the TVA for another wholesale supplier? Mr. Chairman and members of the TVA board, our answer, in short, is "yes."

We believe that continued access to the TVA system offers several advantages:

- It is Kentucky's policy to avoid the wasteful duplication of facilities, because it is not the best use of utility resources, because it can place unnecessary burdens on landowners and because it creates needless visual clutter on our landscape. Allowing departing TVA customers access to TVA transmission could reduce or perhaps even eliminate the need to construct new facilities.
- Where new transmission facilities are necessary, interconnection can produce enhanced reliability for all parties by creating loops that provide alternate paths for power in the event of infrastructure failure.
- Continued access to the TVA system also can provide enhanced interconnections that would potentially allow the sharing of reserve margins between TVA and neighboring utilities, thus reducing the need for new generation in order to meet those reserve margins in the future. For example, TVA's peak usage is in the summer, while East Kentucky Power Cooperative's usage peaks in the winter, which creates a favorable scenario for sharing of generation reserves.

A final question I think bears addressing in this forum is the issue of overall transmission system capability in the event of increased large-scale power transfers across Kentucky. There are several aspects to that issue, among them:

- Is there sufficient transmission, particularly interconnections, to handle the increased power flows through Kentucky that might result from increased transfers of power across Kentucky from south to north, as well as in the opposite direction? As you can see from the map behind me, the number of interconnections is limited. But of greater importance is the fact that only a few of those interconnections are high voltage, which limits the transfer capacity of the system. Several studies conducted by the PSC in recent years found that transmission constraints already exist for large-scale transfers across Kentucky. Those are potential points of instability under current market conditions. An increase in large-scale transfers across Kentucky has the potential to exacerbate the situation. Therefore, transmission capacity must be addressed in advance of any substantial increase in interstate transfers across Kentucky.
- What will be the impacts on transmission owned by utilities in Kentucky, particularly if wholesale power flows increase? How will capacity be allocated in order to protect native load?
- How will the cost of transmission upgrades be allocated?

Before any large-scale changes occur in the structure of the regional wholesale electric market, there must be a thorough examination of the implications of such a move by all of the affected parties.

Mr. Chairman, members of the board, thank you again for the opportunity to be here today. I commend you again for reaching out in this manner and I would be pleased to welcome you again to Kentucky at the earliest opportunity.